Global Finance, Geopolitics and "The Big American Retreat"

By Global Europe Anticipation Bulletin (GEAB)
Global Research, December 17, 2013
Global Europe Anticipation Bulletin (GEAB N°80)

Region: Europe, USA
Theme: Global Economy

2013 is coming to an end on a world-before totally broken apart; 2014 will be merciless for this world of which only ruins will remain. But "we can also build something good with the stones that block the path" (1) and, in this chaos, the world-after has already taken its first steps as we anticipated in the GEAB N° 70 of December 2012 (2).

Whether it be the economic or political woes of the United States, Japan and the European Union, the Russian diplomatic victories over Syria, Armenia or the Ukraine, or Chinese ambitions in the East China Sea, tomorrow's powers are quickly filling the geopolitical void left by yesterday's powers.But 2014 will experience a dramatic acceleration of this profound trend thanks to the convergence of several factors: loss of control of the world by the United States, the end of desperate rescue methods (mainly quantitative easing), a new implosion of the real estate market… Not forgetting the groundswell which is the forced reform of the international monetary system. Using roulette is an example, until recently there has been the phase "place your bets" during which the players have been able to prepare and implement their strategies; we are now rather in the phase "no more bets" where the players will soon be able to see their profits-or losses.

THE NEW INTERNATIONAL MONETARY SYSTEM AWAITS THE EURO

Things are moving very quickly on the monetary front and all the efforts undertaken so far will attempt to crystallise in 2014. The following five examples are indicative of the ongoing developments.

- Kuwait, Qatar, Bahrain and Saudi Arabia are launching their common currency at the end of December (3). For the moment this will be « pegged » to the Dollar; but these countries' trade with the United States is increasingly less significant. In this case, why peg it to the Dollar? Simply to avoid the United States putting a spoke in the wheel, in the knowledge that a simple political decision will, in the near future, allow a swaying towards a more robust solution of a basket of currencies unconnected to the American currency (4). Note, moreover, that five African countries (Kenya, Uganda, Tanzania, Rwanda and Burundi) have also agreed on a common currency (5)…

- Bitcoin is attracting the greedy (6), panicking the markets and central banks which are trying to regulate it (7). If its recent moves are mainly due to speculation as we analysed in the GEAB n°79, nevertheless its success is very revealing of current developments: distrust of fiat currencies (primarily the Dollar), the need for a currency which can't be "manipulated" by central banks, decentralised, not dominated by a country or an entity, dematerialised… This is a first attempt, not perfect, with high volatility (due to low volume and fixed monetary creation), and which comes up against the reluctance of various legislators and, therefore, which risks disappearing or being marginalised in the near future. Nevertheless, the characteristics of this virtual currency should be taken into account in the thinking on the innovation of a new international currency exchange.

- Gold, as we have repeatedly seen, is moving from West to East at a feverish pace (8), gradually supporting the Yuan's international legitimacy. Even if there is no doubt that a gold standard won't see the light of day, hardly appropriate to the needs of our time, even if the new international monetary system, whatever it may be, probably won't be linked to gold (9), its possession remains an important vote of confidence in the current monetary chaos.

- Truly international rating agencies (or « multipolar ») are emerging (10) with the objective of breaking the monopoly of the Anglo-Saxon agencies. This is anything but a trivial development as the agencies influence markets, especially on the assessment of national economies… Of course this isn't a direct monetary factor but it also contributes in questioning Dollar hegemony. (11)

- The Yuan's use for import credit payments has just doubled the Euro's and is now in second place in the world…quite a symbol (12). Swap agreements allowing trade in local currencies have been concluded with almost all regions of the world. As a result, the proportion of trade with China paid in Yuan has gone from 12% to 20% in less than a year (13) and the total of Yuan denominated international trade should increase by 50% in 2014 (14)… This spectacular race is all the more impressive since the Chinese currency still isn't freely convertible and is the sign of the irresistible attraction of the country's economy.

Yuan Hong-Kong deposits (in blue, left-hand scale), Yuan denominated international trade (orange, right-hand scale). Source : Reuters.

Nevertheless, if one excludes the United States based on a status quo in their favour (15), a truly international system can't be created without the Eurozone, whose currency accounts for around 30% of world trade and reserves (16), the number two international currency far ahead of its pursuers. Yet, and we analysed it at length in the last GEAB issue, the Euro remains more a support for the Dollar than an alternative, in particular by its inability to impose itself on its own international trade instead of the Dollar, which leads to this paradox: the huge European trade dynamic directly serves Dollar sustainability (17). The shift towards a multipolar monetary system therefore still depends, for the time being, on Euroland's decision to abandon the Dollar and join the bandwagon of the inevitable current monetary change, led primarily by China.

Banking union which is slowly progressing (18) is the opportunity to strengthen the single currency and make it play the true role to which it lays claim when European decision-makers of another era (19) invented it; as well as the beneficial impact of the 2014 European elections which will distance the Eurozone from the EU a little further. The end of 2014 or, at the latest, 2015 is, therefore, the date when the Euro will finally play its part in exiting the international monetary system from the Dollar's rut.

[…]

http://www.leap2020.eu/GEAB-N-80-is-available-Currencies-geopolitics-real-estate-finance-2014-the-big-American-retreat_a15224.html

Notes :

1 From Goethe.

2 Called at the time: 2013, the first steps of a "world afterwards" in complete chaos.

3 Source : Gulf News, 01/12/2013.

4 In fact the preceding article explains that economists already want to abandon the peg to the dollar…

5 Source : Business Day, 01/12/2013.

6 From China especially : CNBC, 29/11/2013.

7 Source : Caixin, 10/12/2013. See also Le Monde, 13/12/2013.

8 Some even think that the West won't be able to manipulate the gold price for much longer… due to its lack of physical gold. Source : Peak Prosperity, 06/12/2013.

9 Gold can be used to support a currency in the process of international (re-) legitimisation but once it reaches international status, it de facto recreates confidence in currencies. Gold is then relegated to its role of "barbarous relic", leaving currencies to rely on the true riches of modern times: energy, production quantified as wealth, etc… The collapse of the economy's actual productivity (US) on which the international currency (Dollar) was based explains the huge monetary crisis in the world and which the Yuan's emergence is largely meeting, providing the base for a re-securing of currencies to economies. The problem is that in reaching international status, the Yuan will cause the Dollar and the US' virtual economy to collapse, which will inevitably affect the rest of the planet. This is why, at this stage still, LEAP is continuing to advise its readers to diversify part of their assets into physical gold to lessen the shocks in view in 2014, but one must also know the time to sell.

10 Commented on in the GEAB n°79. Sources : The BRICS Post (29/06/2013), The BRICS Post (12/11/2013).

11 On this issue, following the attacks on European ratings by the American rating agencies, Europe was amongst the first to propose creating an alternative agency. Unfortunately, in April 2013, it found it impossible to finance a European rating agency: too expensive, too complicated! Since then, the Chinese, the Russians and the Africans (with WARA, etc., have all launched their own rating agencies structured on global networks (for example within the framework of the UCRG to create a rating system adapted to the multipolar world… without European participation: Europe isn't part of the multipolar rating system that has been emerging for some time. It's disappointing and still and

always asks this question: who prevented the creation of such an agency in Europe? Probably the same who are trying to sneak the Transatlantic Treaty past us, the areas of anti-Russian free trade with the Ukraine, Moldavia, Armenia and Turkey's EU integration, etc and who really hope to see Europe definitively exit world affairs. Pointing at European leaders, we reiterate our recommendation to launch such an agency as soon as possible! And don't tell us that Europe has neither the resources nor the expertise to carry out such a project…

12 Source : Reuters, 03/12/2013. Note, contrary to what is generally understood, the Yuan isn't (yet) the second currency for international trade and by far: here, it's simply a matter of a certain kind of transaction and not all international trade (source : Le Monde, 03/12/2013). Nevertheless, the Yuan's rise is very impressive.

13 Source : Reuters, 03/12/2013.

14 Source : CNBC, 11/12/2013.

15 In reality they don't really have a choice whilst their power rests on their ability to maintain dollar supremacy.

16 Cf. GEAB n°62 (February 2012).

17 It's certain that this aberration has the significant advantage of avoiding the European common currency becoming overvalued. But it's really the only advantage…of which one may wonder if it really offsets those which would have led the Euro to independence.

18 And which distances the EU further and further… Source : EUObserver, 11/12/2013. We will deal with this subject in greater detail in the Telescope section.

19 Mitterand, Kohl and others, at the end of the 80s and the beginning of the 90s.

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